County of Erie
MARK C. POLONCARZ
COMPTROLLER

NEWS RELEASE

For Immediate Release
July 12, 2006

Contact: Timothy Callan
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Statement of Erie County Comptroller Mark C. Poloncarz
On the County Executive's July 12, 2006 Press Conference

Earlier today, the County Executive held a press conference which in part discussed my July 11, 2006 letter to the Legislature and County Administration expressing my concerns over spending 2006 positive variances to help pay for the county's 2006 capital program.

It is my understanding that the County Executive stated at that press conference that I supported his position of improving the county's infrastructure by borrowing, and not using reserves. I understand that he even said that he and I were in "lock-step" on that issue.

That is not true.

The County Executive appears to have misunderstood my letter and misinterpreted my position.

Let me be clear. My letter stated and my position is that for the past few years, the county has engaged in too much spending, too much borrowing, and too much depletion of fund balance (reserves) with not enough restraint. As one of the first county officials to call for a "debt-diet", my position on borrowing is very clear.

I understand the County Executive also stated that the county has been on a debt diet for the past several years. That is just not true.

Starting in 2000, not including sewer bonds, the county has borrowed $407.8 million for capital projects, ECMCC projects, pension obligations, and even for overtime costs for county highway and snow plowing. For general obligation purposes, the county borrowed $95.97 million in 2003, $96.28 million in 2004, and $85.22 million in 2005. I would hardly call that a debt diet.

The county has incurred too much general obligation debt. We need to borrow less, not more, and my letter said so, a copy of which is attached.

County of Erie
MARK C. POLONCARZ
COMPTROLLER

July 11, 2006

Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, New York 14202

Erie County Executive Joel A. Giambra
95 Franklin Street, 16th Floor
Buffalo, New York 14202

Re: 2006 County Capital Borrowing Program and Fund Balance Restoration

Dear County Executive Giambra and Honorable Members of the Legislature:

There has been much recent discussion regarding how Erie County ("County") will pay for its proposed 2006 capital program, including a suggestion by the Chairman of the Erie County Fiscal Stability Authority ("ECFSA") – one echoed by some members of the Erie County Legislature ("Legislature") – that the County use all or some of its General Fund balances resulting from positive variances attained this year to pay for its proposed 2006 capital expenses.

I must first state for the record that I will oppose what I believe to be excessive spending and borrowing in Erie County government. I am one of the first persons in county government to have used the phrase "debt diet" and believe that a policy of "borrowing and spending" will only cause continued fiscal harm to the County. Excessive spending and borrowing was a major contributing factor to the County's current fiscal situation. While borrowing for capital purposes is a financially sound method of municipal finance, excessive borrowing will only perpetuate a state of fiscal uncertainty in Erie County.

That being said, I am deeply troubled by recent suggestions that the County utilize all or some of its reported projected "surpluses" in 2006 to pay for 2006 capital projects. It is true that budget monitoring reports issued by the administration and my office's independent tracking for the first five months of the year currently show positive variances in certain accounts for 2006. Additionally, it has been reported that the County will end up 2006 with a $12.7 million positive variance for its Medicaid expenses as compared to the original budgeted Medicaid amount because of the Medicaid cap. Those are positive developments for not only this budget year, but the long-term financial health of the County.

However, positive variances as of the end of May could easily change to negative variances by year's end, especially when the County depends so heavily on sales tax receipts for its revenue. As the former budget director and now executive director of ECFSA Ken Vetter said earlier this year, positive variances based on only a few months of data cannot and should not be interpreted as "surpluses."

I must also remind you that the successive drawing down of fund balance without corresponding reductions in spending or borrowing over several years is what helped precipitate the County's current fiscal condition. The use of one-shot financial measures is not sound policy and should be avoided at all costs. Recurring expenses should be paid-for with recurring revenues. Any substantial use of positive variances attained in this fiscal year which materially reduces a potential year-end surplus is in itself another one-shot measure. Similarly, spending based on positive variances at so early a point in 2006 for capital purposes is not wise and not conservative. We must behave conservatively in our budgeting and spending if we are to end this year with a balanced budget, nevertheless a surplus.

As you are aware, the modified Four Year Financial Plan submitted by the County Executive, approved by the Legislature, revised in January 2006 and accepted by the ECFSA includes a requirement that the County establish a fund balance by the end of 2009 of approximately $75.5 million. Under Government Finance Officers Association ("GFOA") guidelines, the County should maintain <u>at minimum</u> a fund balance equivalent to 5% of the County's General Fund budget. Under the 5% rule, our fund balance at year-end 2005 should have been $48 million. However, unaudited financial statements for 2005 show a total fund balance of approximately $14 million. While the reestablishment of fund balance is positive (at year-end 2004, total fund balance was $5 million – down from $202 million at year-end 2000), that is $34 million less than required under the 5% rule. As a reminder, total fund balance at year-end 2006 under GFOA guidelines should be approximately $55 million.

Maintaining a healthy fund balance is essential for our financial standing on Wall Street. One of the major factors which rating agencies examine in determining our creditworthiness is our fund balance. In late May 2006, Moody's Investors Service ("Moody's") declined to remove a negative outlook from the County's rating. In their review, Moody's stated that removal of the negative outlook and a rating upgrade was possible in the future if the County's 2005 audited financials show <u>no further reduction in reserves</u> and the County achieves 2006 operating results that demonstrate structural balance. Similarly, potential increases in our rating from Standard & Poor's and/or Fitch Ratings will be based in-part on developing and not drawing down a healthy fund balance.

As if to document in fact what Moody's has been telling Erie County it must do to remove the negative outlook, on July 6, 2006 the Buffalo News reported that Moody's removed the negative outlook on Niagara County because of structurally balanced operations and a restoration of its fund balance. The negative outlook was placed in 2003 when Niagara County's fund balance had been reduced to zero, and removed only after the county went through three fiscally sound budgets and restored its fund balance to a little more than eight percent of its budget. Interesting to note, though Moody's removed the negative outlook on Niagara County it did not improve its credit rating. This just goes to show that while it can take just a few short weeks to see a good rating reduced to near junk status, it can take years to rebuild that rating to its former level.

Therefore, just as excessive borrowing and spending is frowned upon by Wall Street, I must warn you that any substantial 'raiding' of past fund balance or a part year positive variance, especially for capital purposes, may not be well received by the rating agencies and may endanger my efforts to secure ratings upgrades – upgrades that the County needs to reduce our costs. Just as the County needs to be judicious in its choice of capital projects (as the Legislature and ECFSA have rightly noted), it must ensure that paying for such projects does not negatively impact our ability to restore the County's fund balance.

As always, my office is available to discuss this matter further and if you have any questions please feel free to contact me at 858-8400.

Sincerely yours,

Mark C. Poloncarz

Mark C. Poloncarz, Esq.
Erie County Comptroller

MCP/sa

cc: Erie County Fiscal Stability Authority
James Hartman, Director of Budget, Management and Finance